

NORSK HYDRO A S A
Form 6-K
February 14, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
For the quarter ended 31 December 2005
NORSK HYDRO ASA

(Translation of registrant's name into English)
Drammensveien 264, Vækerø
N-0240 OSLO
Norway

(Address of principal executive offices)
001-09159

(Commission File Number)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.
Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-_____

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Norsk Hydro ASA and Subsidiaries

Operating and financial review and prospects for the year ended 31 December 2005

Consolidated results (US GAAP)

Million, except per share data	Fourth quarter			Year		
	2005 NOK	2005 EUR ¹⁾	2004 NOK	2005 NOK	2005 EUR ¹⁾	2004 NOK
Operating revenues	45,318	5,670	38,769	174,201	21,795	153,891
Operating income	10,450	1,307	6,234	46,432	5,809	31,847
Non-consolidated investees	(76)	(10)	90	619	78	629
Financial income (expense), net	(579)	(72)	900	(1,890)	(236)	137
Other income (loss), net	758	95	59	990	124	169
Income from continuing operations before tax and minority interest	10,553	1,320	7,283	46,152	5,774	32,781
Income tax expense	(6,422)	(804)	(3,723)	(30,317)	(3,793)	(21,197)
Minority interest	133	17	78	(118)	(15)	(106)
Income from continuing operations	4,264	533	3,638	15,716	1,966	11,477
Income from discontinued operations ²⁾						1,083
Income before cumulative effect of change in accounting principles	4,264	533	3,638	15,716	1,966	12,560
Cumulative effect of change in accounting principles	(78)	(10)		(78)	(10)	
Net income	4,186	524	3,638	15,638	1,957	12,560
Basic and diluted earnings per share from continuing operations (in NOK and Euro) ³⁾	17.10	2.14	14.30	62.70	7.84	45.10
Basic and diluted earnings per share before change in accounting principles (in NOK and Euro) ³⁾	17.10	2.14	14.30	62.70	7.84	49.40

Financial data

Investments million	28,902	3,616	6,322	41,110	5,143	19,464
Adjusted net interest-bearing debt/equity ⁴⁾	0.31	0.31	0.11	0.31	0.31	0.11
Debt/equity ratio	0.28	0.28	0.28	0.28	0.28	0.28

- 1) Presentation in Euro is a convenience translation based on the exchange rate at 31 December 2005, which was 7.9927.
 - 2) On 24 March 2004, Hydro's agri business was transferred to Yara International ASA in a demerger transaction. Results of the transferred operations relating to periods prior to the demerger are reported under Income from discontinued operations.
 - 3) Basic earnings per share were computed using the weighted average number of ordinary shares outstanding. There were no diluting elements.
 - 4) Adjusted net interest-bearing debt divided by shareholders' equity plus minority interest, adjusted for unfunded pension obligation (after tax) and present value of future obligations on operating leases. See page 32.
- All comparative figures are for the corresponding period in 2004 unless otherwise stated. Certain amounts in previously issued consolidated financial statements were reclassified to conform with the 2005 presentation.
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Income from continuing operations in 2005 was NOK 15,716 million (NOK 62.70 per share) and NOK 4,264 million (NOK 17.10 per share) in the fourth quarter of the year, record results for Hydro in both periods. The strong operating results reflected the sustained high oil and gas prices and improved aluminium prices, together with continued strong operational performance. However, high energy prices and fierce competition continue to challenge Hydro's aluminium business.

Operating income in the fourth quarter of 2005 amounted to NOK 10,450 million, compared with NOK 12,973 million in the third quarter of 2005 and NOK 6,234 million in the fourth quarter of 2004. The fourth quarter operating results for 2005 included a non-cash charge of about NOK 1.8 billion including impairment losses in Hydro's aluminium business of NOK 1.2 billion. In addition, the fourth quarter of 2005 included approximately NOK 1.4 billion of unrealized losses on derivative contracts relating to operational hedges due to a significant rise in the forward prices for aluminium, oil, gas and power at the end of the year. Operating income in the fourth quarter of 2004 included impairment losses and rationalization costs totaling approximately NOK 2.6 billion.

The Hydro Board of Directors proposes to the Annual General Assembly of shareholders a dividend of NOK 22 per share for 2005, compared with NOK 20 per share for 2004.

Hydro's results in the fourth quarter were our best quarterly results ever, and 2005 was our strongest year in history, mainly due to high oil and gas and improved aluminium prices. Operational improvements continued, but market conditions, particularly for downstream aluminium, have continued to worsen and we need to increase our efforts to restructure the business, says Eivind Reiten, Hydro President and CEO. 2005 represented an international breakthrough for our oil and gas business, both in terms of exploration and business development. Capturing value from Hydro's enlarged portfolio as well as the continued strengthening of our resource base are at the top of our agenda going forward, Reiten says.

The establishment of a new, separate business area, Aluminium Products, represents an important step to deliver increased profitability. Cash generation from the Rolled Products, Automotive and Extrusion sectors will have priority, Reiten says. At the same time, the repositioning of upstream aluminium will continue, with the planning of one of the world's largest smelters, to be located in Qatar, as the single-most important project.

Operating income for Oil & Energy in the fourth quarter of 2005 amounted to NOK 11,537 million, another strong quarter result that contributed to record-high operating income for the year as a whole. Operating income in the fourth quarter included the expensing of seismic data-bases included in the Spinnaker acquisition²⁾ amounting to NOK 320 million and previously capitalized development costs of the Telemark field in the Gulf of Mexico (GoM) of NOK 210 million. The quarter also included unrealized losses on hedges relating to Spinnaker operations amounting to NOK 440 million. Operating income for 2005 reached NOK 43,451 million, an increase of 40 percent compared with 2004, mainly as a result of high oil and gas prices. Hydro realized an average oil price¹⁾ of US dollar 55.6 per barrel in the fourth quarter of 2005, a decrease of 8 percent compared with the third quarter of 2005, and 33 percent higher than in the fourth quarter of 2004. Oil and gas production averaged 589,000 barrels of oil equivalents (boe) per day during the fourth quarter of 2005, an increase of 48,000 boe per day compared with the third quarter of 2005 and a decrease of 2,000 boe per day compared with the fourth quarter of 2004. For the year as a whole, average oil and gas production declined about 2 percent compared with 2004 to 563,000 boe per day.

Hydro consistently demonstrated good project execution and cost control. The Ormen Lange/Langeled project has proceeded according to schedule and on budget, and was 60 percent completed by the end of December. In December 2005, the acquisition of Spinnaker Exploration Company was completed. Spinnaker is mainly engaged in exploration, development and production of oil and gas in the GoM. Spinnaker's portfolio includes interesting exploration acreage, comprising deepwater and shelf prospects, as well as an extensive seismic database covering most of the GoM. Hydro's overall exploration results for the year were encouraging. In 2005, Hydro participated in 14 discoveries, half of them as operator. Seven of the discoveries were located on the Norwegian Continental Shelf (NCS).

Increased volumes from primary aluminium production and higher realized aluminium prices had a positive impact on Hydro's aluminium operating income during 2005. However, the fourth quarter operating loss of NOK 1,009 million was heavily influenced by impairment losses of NOK 1,238 million relating to magnesium and rolled products

operations due to challenging market conditions. In addition, London Metal Exchange (LME) prices increased substantially during the quarter to US dollar 2,277 at the end of December (23 percent). This resulted in unrealized losses on LME contracts of NOK 997 million for the quarter. Hydro's primary aluminium production increased to 464,000 metric tons (mt) in the fourth quarter, up 4 percent, compared with the fourth quarter of 2004. In 2005, primary aluminium production increased by 6 percent to 1,826,000 mt mainly due to the expansion of the Alouette and Sunndal plants. Compared with the fourth quarter of 2004, Hydro's realized alu-

- 1) Average oil price realized by Oil & Energy's Exploration and Production sub-segment.
 - 2) See discussion included in note 1. Summary of Significant Accounting Policies included in Hydro's 2004 annual report. In accordance with Hydro's accounting policy, all expenses related to exploration, with the exception of the cost of drilling exploratory wells, are expensed as incurred. As a result, any fair value allocated to such costs relating to acquired assets must be written off.
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minium price in US dollars and Norwegian kroner increased about 10 and 11 percent, respectively. For 2005, realized aluminium prices increased 5 percent measured in Norwegian kroner. Hydro's downstream operations in Europe faced challenging market conditions with continued pressure on margins.

Outlook

Oil and gas prices are expected to remain high in the medium term. The oil market is expected to remain relatively tight in 2006. In the beginning of 2006, increased political risk related to oil supply has driven prices upward. The price development is expected to be more volatile going forward, resulting in greater uncertainty and increased risk. Hydro has targeted oil and gas production of 615,000 boe per day for 2006, an increase of around 9 percent compared with realized production in 2005. During 2005, Hydro strengthened its exploration portfolio, and intends to step-up exploration activities in 2006 and beyond.

The average aluminium prices experienced in the fourth quarter of 2005 reflected substantial increases in short-term alumina prices as well as the significant rise in power costs for the major producing regions. At the beginning of February 2006, primary aluminium (three-month LME price) was trading at around US dollar 2,500 per mt. Trading by financial investors on the LME increased significantly during 2005. This situation presents the risk of a significant correction in the market if investor sentiment changes. The significant rise in power costs is expected to result in a cost increase for Hydro's aluminium business estimated at NOK 1.4 billion for 2006 compared to the total cost of power in 2005. Approximately NOK 1.1 billion of the increase relates to upstream activities, with a large part relating to operations in Germany. Economic indicators signal continued global growth in 2006. Hydro expects global consumption and production of primary aluminium to show an increase in 2006 of approximately 6 and 4 percent, respectively, both highly dependent upon developments in China. Pressure on margins for standardized products in the downstream aluminium markets are expected to continue during 2006.

Volatility in the oil, gas, power and aluminium markets is expected to continue and could result in substantial unrealized gains and losses on derivatives in future quarters.³⁾

Fourth quarter 2005

	Operating income (loss)	Non-cons. inv., interest & selected fin. items	Other income	Depreciation and amortization	Adjusted EBITDA
NOK million					
Hydro Oil & Energy	11,537	27	65	3,137	14,766
Hydro Aluminium	(1,009)	(38)		2,254	1,207
Other Activities	(98)	58	693	134	786
Corporate and Eliminations	20	217		4	241
Total ¹⁾	10,450	264	758	5,528	17,000

1) See specification on page 29.

Year 2005

	Operating income (loss)	Non-cons. inv., interest & selected fin. items	Other income	Depreciation and amortization	Adjusted EBITDA
NOK million					

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Hydro Oil & Energy	43,451	187	65	10,636	54,339
Hydro Aluminium	2,511	500		5,033	8,044
Other Activities	(2)	431	925	525	1,880
Corporate and Eliminations	472	736		22	1,231
Total ¹⁾	46,432	1,854	990	16,216	65,493

1) See specification on page 29.

3) Hydro is engaged in substantial trading and commercial activities in the physical markets and also uses financial instruments such as forwards, futures and options both on and off exchanges in order to manage and hedge unfavorable fluctuations in prices and production volumes. Certain contracts are marked-to-market value in the balance sheet with unrealized gains and losses reflected in operating results for the period or deferred if certain hedge accounting criteria are met. Offsetting gains and losses on contracts within Hydro's total portfolio that are not marked-to-market value are recognized when realized (i.e. when the contracts are closed). This can result in significant effects on reported results, in particular during periods of substantial volatility in the markets.

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Results for non-consolidated investees amounted to a loss of NOK 76 million in the fourth quarter of 2005, compared with earnings of NOK 90 million in the fourth quarter of 2004. The fourth quarter of 2004 included a charge of NOK 268 million relating to the write-down of the Hamburger Aluminium Werk (HAW) smelter in Germany. The decline for the fourth quarter of 2005 resulted primarily from reduced earnings from Alunorte in Brazil due to unrealized currency losses on US dollar loans, increased production costs and losses on operational hedge programs due to the increased aluminium market prices. For 2005 as a whole, earnings from non-consolidated investees were NOK 619 million, compared with NOK 629 million in the previous year.

Net financial expense in the fourth quarter of 2005 amounted to NOK 579 million, compared with net financial income of NOK 900 million in the fourth quarter of 2004. The current quarter included a net foreign currency loss of NOK 601 million, while the fourth quarter of 2004 included a net currency gain amounting to NOK 1,606 million. The currency loss was mainly due to the strengthening of the US dollar and Euro during the quarter resulting in losses on Hydro's US dollar denominated debt and foreign currency contracts.

Other income was NOK 758 million in the fourth quarter of 2005, compared with NOK 59 million in the fourth quarter of 2004. For 2005 as a whole, other income amounted to NOK 990 million, compared with NOK 169 million for 2004. In December 2005, Hydro sold its interest in Biomar Holding A/S, recognizing a gain of NOK 693 million. In April 2005, Hydro sold its remaining interest in Pronova Biocare for NOK 275 million, recognizing a gain on the sale of NOK 233 million. Hydro divested 80.1 percent of Pronova Biocare in 2004, recognizing a gain of NOK 110 million.

Income tax expense for 2005 amounted to NOK 30,317 million, compared with NOK 21,197 million for 2004. This represents 66 percent and 65 percent of income from continuing operations before tax, respectively.

Hydro recognized an after-tax charge of NOK 78 million relating to the implementation of a new accounting interpretation relating to asset retirement obligations.

Cash flow from operations in 2005 amounted to NOK 27.4 billion, compared to NOK 27.7 billion in 2004. Positive effects of increased earnings were offset by increased working capital requirements and tax payments.

Investments amounted to NOK 41.1 billion for 2005. Roughly 88 percent of the amount invested related to oil and gas operations including NOK 21.9 billion relating to the Spinnaker acquisition.

Return on average Capital Employed (RoACE⁴) was 16.8 percent for 2005 compared with 13.0 percent for 2004.

Adjusted for the effects of special events* RoACE was 19.9 and 13.6 percent for 2005 and 2004, respectively. See also the discussion included in the section "Use of non-GAAP financial measures" later in this report.

Normalized RoACE for 2005 was 7.0 percent, compared with 7.6 percent for 2004. Adjusted for the effects of the special events*, normalized RoACE was 9.2 percent in 2005, compared with 8.2 percent in 2004. In December 2004 Hydro announced a target for normalized RoACE of 7.5-8.5 percent for 2006 which did not take into consideration any of the special events. Hydro has reached its targeted level for both years 2004 and 2005.

* 2005: The acquisition of Spinnaker in December and the impairment loss within Hydro's aluminium business.
2004: Impairment losses within Hydro's aluminium business, together with the effect of a change in Norwegian tax legislation.

4) RoACE is defined as "Earnings after tax" divided by average "Capital Employed". See also discussion pertaining to Non GAAP financial measures included later in this report including the long term price assumptions used to calculate normalized RoACE.

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Hydro Oil & Energy

Operating income (loss)

NOK million	Fourth Quarter		Year	
	2005	2004	2005	2004
Exploration and Production	10,690	7,116	40,594	28,363
Energy and Oil Marketing	1,403	1,072	3,575	2,650
Eliminations	(556)	433	(719)	132
Total	11,537	8,621	43,451	31,144

Adjusted EBITDA

NOK million	Fourth quarter		Year	
	2005	2004	2005	2004
Exploration and Production	13,677	9,825	50,601	38,168
Energy and Oil Marketing	1,645	1,325	4,456	3,478
Eliminations	(556)	433	(719)	132
Total	14,766	11,583	54,339	41,777

	Fourth quarter		Year	
	2005	2004	2005	2004
Oil and gas production (thousands boe/d)	589	591	563	572
Oil price (USD/bbl)	55.60	41.80	53.10	37.30
Oil price (NOK/bbl)	368.80	263.80	342.20	251.30
Average exchange rate USD/NOK	6.63	6.32	6.44	6.74
Gas price (NOK/Sm ³)	1.85	1.20	1.52	1.09
Exploration expense (NOK million)	1,092	518	1,839	1,264

Hydro Oil and Energy consists of the two sub-segments Exploration and Production and Energy and Oil Marketing .

Operating income

Fourth quarter operating income in 2005 amounted to NOK 11,537 million, representing an increase of 34 percent compared with the fourth quarter in 2004. The strong results for the quarter mainly resulted from the continued high oil and gas prices. Operating income for the fourth quarter included the expensing of seismic databases included in the Spinnaker acquisition²⁾ amounting to NOK 320 million and previously capitalized development costs of the Telemark field in the GoM of NOK 210 million. The quarter also included losses on hedges relating to Spinnaker operations amounting to NOK 440 million. Operating income for 2005 was NOK 43,451 million, an increase of 40 percent compared with 2004.

Market developments

Average oil market prices for Brent Dated were US dollar 56.9 per barrel in the fourth quarter of 2005, almost US dollar 5 per barrel lower than third-quarter prices. Crude oil prices fluctuated during the quarter influenced by changes in actual and forecasted weather conditions. During December, announced plans for an extraordinary OPEC meeting

in late January to evaluate future cuts in production quotas had a positive impact on price developments. Year-end prices were pushed upwards as the market focused on the tight US gasoline market, with strong demand and low inventories.

Hydro realized average crude oil prices¹⁾ of US dollar 55.6 per barrel during the fourth quarter of 2005, compared with US dollar 41.8 per barrel in the fourth quarter of 2004 and US dollar 60.4 in the third quarter of 2005. Hydro's average realized crude oil price was US dollar 1.3 below the average Brent price of US dollar 56.9 per barrel, mainly resulting from a negative price differential on oil from the Grane field, which is heavier than Brent blend and therefore sold at lower average prices. Measured in Norwegian kroner, oil prices were NOK 369 per barrel, about 40 percent higher than in the fourth quarter of 2004 and about 6 percent lower than in the third quarter of 2005.

Average spot prices for gas in Europe were significantly higher in the fourth quarter of 2005 compared with the fourth quarter of 2004, reflecting a higher general price level for gas as a result of

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increased oil prices. Average spot prices also increased significantly compared with the third quarter of 2005, due to seasonal variation in demand. Prices reached exceptionally high levels in November and December, due to high demand caused by cold weather combined with supply constraints. Forward prices rose during the fourth quarter driven by both a strong gas spot market and high oil prices. Realized gas prices⁵⁾ in the fourth quarter of 2005 amounted to NOK 1.85 per standard cubic meter (Sm³), representing an increase of 54 percent compared with the fourth quarter of 2004 and an increase of 36 percent compared with the third quarter of 2005. The positive development reflected increased reference prices (oil products) for long-term gas contracts, in addition to a general increase in spot prices for gas, especially in the UK gas market.

The average spot price in the Nordic electricity market increased to NOK 255 per MWh in the fourth quarter of 2005, compared with NOK 226 per MWh in the corresponding period in 2004. The increase was mainly a result of higher European power prices due to increased consumption and lower availability of nuclear power. The spot price averaged NOK 234 per MWh in the third quarter of 2005.

Adjusted EBITDA

Oil & Energy adjusted EBITDA for the fourth quarter of 2005 was NOK 14,766 million, an increase of 27 percent compared with the same period in 2004. Adjusted EBITDA for 2005 was NOK 54,339 million, an increase of 30 percent, compared with 2004.

Factors affecting developments in the coming quarters

Bad weather and other incidents disrupted production from several fields on the NCS in January 2006. Production on the partner-operated Visund platform in the North Sea was shut down on 19 January 2006 due to a gas leakage. Visund is unlikely to resume production during the first quarter. Total output from Visund represented about 35,000 barrels of oil and five million Sm³ of gas per day before the shutdown. Hydro's share is 20.3 percent. Hydro is currently producing about 15,000 boe per day in the GoM, around 5,000 boe per day below plan. The short-fall is due to production outages caused by the autumn hurricanes in 2005. Several pipelines and hubs in the area were damaged, and repairs have been delayed due to shortages of repair vessels and personnel. Hydro expects most of the shut down production to be back on stream by the end of the second quarter of 2006.

Production cost excluding costs for gas injection is expected to increase for 2006 to a level of around NOK 23 per barrel, compared with NOK 20 per barrel in 2005. The increase primarily relates to higher costs due to the start-up of new fields, increased well maintenance and increased costs relating to Terra Nova in Canada.

Hydro plans to increase its exploration level from 2005, and expects to participate in the drilling of about 60 exploration targets in 2006. Between 20-25 wells are expected to be drilled on the NCS. The main international drilling activity will be in the GoM, where Hydro expects to participate in approximately 20 exploration wells in 2006.

As part of the Spinnaker acquisition, Hydro obtained the right to acquire certain additional seismic databases by payment of a change of control fee. Hydro expects to exercise this right during 2006. The fair value allocated to the right to acquire these seismic databases, amounting to NOK 180 million, together with the change of control fee of approximately NOK 400 million, will be expensed upon exercising this right.²⁾

Exploration and Production

Operating income

Fourth quarter operating income for Exploration and Production was NOK 10,690 million, 50 percent higher than in the same period last year. Operating income for 2005 was NOK 40,594 million, an increase of 43 percent from 2004. The increased operating income was mainly driven by higher oil and gas prices.

Average oil and gas production in the fourth quarter of 2005 reached 589,000 boe per day. Production in the fourth quarter increased by 48,000 boe per day compared with the third quarter of 2005, but remained approximately at the same level as in the fourth quarter of 2004 of 591,000 boe per day. Oil and gas production for 2005 reached 563,000 boe per day, compared to 572,000 boe per day for 2004. The decrease resulted mainly from lower oil production on the NCS.

Oil production in the fourth quarter of 2005 averaged 405,000 barrels per day, which was 6,000 barrels higher than in the third quarter of 2005, and 10,000 barrels lower than in the fourth quarter of 2004. The decline from 2004 reflected

a maturing portfolio on the NCS, where oil production from new developments is not keeping pace with production declines. Production from the Snorre field on the NCS has now reached planned production levels. Production from the Urd field in the Norwegian Sea began in early November, and is expected to reach a plateau production level of 7,000 boe per day (Hydro's share) in 2006. Production from the Kristin gas and condensate field in the Norwegian Sea began in early November, and is expected to reach a plateau production level of 31,500 boe per day (Hydro's share) in 2007. The fields acquired through the Spinnaker acquisition contributed approximately 15,000 boe per day beginning 14 December to Hydro's fourth quarter production volumes. Maintenance stops resulted in oil production losses of approximately 4,000 boe per day during the fourth quarter.

- 5) Realized gas prices include both spot market prices and long-term contract prices.
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Gas production in the fourth quarter of 2005 averaged 184,000 boe per day, which was 42,000 boe per day higher than in the third quarter of 2005, and 8,000 boe per day higher than in the fourth quarter of 2004. The increase in 2005 reflected higher volumes sold to European continental customers, mainly sourced from the Kvitebjørn field, which came on stream late 2004.

Hydro has hedged the majority of the oil and gas production from Spinnaker for the period 2006-2008. Under the hedging program, crude oil prices (West Texas Intermediate reference) have been secured between USD 45 per boe and USD 71.45 per boe using zero cost collar options. Hydro has secured the gas price (Henry Hub reference) by purchasing put options for the same period with a strike price of USD 7.5 per million British thermal units (mmbtu). These derivatives are included in the balance sheet at fair value, with changes in the fair value recognized in the income statement resulting in an unrealized loss of NOK 440 million for the quarter.

Production costs⁶⁾ amounted to NOK 25.3 per boe for 2005, compared to NOK 20.7 per boe for 2004. The increase mainly resulted from higher costs related to the purchase price of gas for injection into the Grane field. Production cost excluding purchase of gas for injection was NOK 19.9 per boe for 2005, which was in line with previous estimates.

In December 2005, Hydro decided not to pursue the planned development solution for the Telemark field in the GoM due to unsatisfactory profitability. Previously capitalized development costs for the field, amounting to NOK 210 million, were written off in the fourth quarter of 2005. An alternative development plan is being considered. Increased future cost estimates for removal and abandonment resulted in an additional depreciation charge of NOK 244 million in the fourth quarter of 2005, mainly due to increased estimates for removal and abandonment of the Frigg Area and Ekofisk 1 field installations, which have ceased production.

Exploration costs of NOK 1,092 million were charged to the results for the quarter, compared with NOK 518 million in the fourth quarter of 2004 and NOK 199 million in the third quarter of 2005. The amount expensed in the fourth quarter of 2005 included NOK 320 million relating to the value allocated to seismic databases acquired as part of the Spinnaker acquisition²⁾. In addition purchases of other seismic data as well as accruals for penalties for commitment wells not drilled within the license period were expensed. Hydro participated in the completion of three exploration wells in Libya in the fourth quarter of 2005; two of the wells resulted in discoveries while the remaining well is under evaluation. Exploration costs expensed for 2005 amounted to NOK 1,839 million, 45 percent higher than in 2004.

Exploration activity has been substantially higher in 2005 than in 2004. The total amount spent on exploration activities in 2005 was NOK 2,582 million. A total of 22 wells, including four extensions on producing wells, were completed in 2005 resulting in 14 discoveries. One exploration well in Libya is under evaluation. Drilling operations underway at year-end included nine wells. Prior to the acquisition by Hydro, Spinnaker participated in 9 wells in 2005 that resulted in 7 discoveries.

Reserves

Hydro's remaining proved oil and gas reserves were 2,046 million boe at the end of 2005, compared with 2,076 million boe at the end of 2004. Reserve revisions of previous estimates added 64 million boe of proved reserves, net of 21 million boe of reserve declines relating to fields operated under production sharing agreement (PSA) contracts.⁷⁾ New reserves amounted to 59 million boe, while net purchases and sales increased reserves by 52 million boe. Production amounted to 206 million boe in 2005. Reserve life, defined as the number of years of production from proved reserves at the present production level, was approximately 10 years at the end of 2005, comprised of approximately 6 years for oil and approximately 20 years for gas. Further information relating to changes in proved reserves is included on page 31 of this report.

Adjusted EBITDA

Exploration and Production adjusted EBITDA in the fourth quarter of 2005 was NOK 13,677 million, an increase of 39 percent compared with the fourth quarter of 2004. Exploration and Production adjusted EBITDA for 2005 amounted to NOK 50,601 million, an increase of 33 percent compared with 2004.

Business development

In the third quarter of 2005, Hydro entered into an agreement to acquire the shares of Spinnaker Exploration Company in an all-cash transaction for USD 2.45 billion. Hydro also assumed approximately USD 137 million in net

interest-bearing debt. The acquisition was approved by the shareholders of Spinnaker and the US government in December of 2005.

In November 2005, Hydro entered into an agreement to acquire a 50 percent interest in the Chinook discovery, located in the Campos basin 75 kilometers offshore Brazil in water depths of about 100 meters. The transaction is expected to be finalized in the first half of 2006 and is subject to regulatory approval.

In December 2005, Hydro was allocated 12 new operatorships and holdings in five additional production licenses in the Awards for Predefined Areas (APA 2005) licensing round on the NCS. Hydro

- 6) Production cost is comprised of the cost of operating fields, including Co₂ emission tax, insurance, gas purchased for injection, and lease costs for production installations, but excluding transportation and processing tariffs, operation costs for transportation systems and depreciation.
 - 7) Under PSA contracts, the volumes of entitlement oil are reduced when oil prices rise, which results in downward revisions of recorded reserves.
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submitted an application for the 19th Licensing Round on the NCS, which is expected to be awarded in the first quarter of 2006. Hydro has also applied for new licenses in the Danish 6th Concession Round, which are expected to be awarded in February 2006. In Libya, Hydro was awarded contract area 146 block 1 in the Murzuq basin. Hydro is the operator with a 7 percent equity share. The National Oil Corporation holds the remaining equity. The block covers an area of 2,492 square kilometers. In Iran, the commerciality report for the Azar discovery was submitted in December. Pending approval on commerciality, Hydro has the right to enter into negotiations for a field development contract.

Energy and Oil Marketing

Operating income

Energy and Oil Marketing operating income was NOK 1,403 million in the fourth quarter of 2005, an increase of 31 percent, compared with the same period last year. The increase mainly related to power and gas activities.

Operating income increased by NOK 937 million, compared with the third quarter, mainly as a result of forward price developments affecting the marked-to-market valuation of the gas contracts portfolio. Operating income for 2005 amounted to NOK 3,575 million, an increase of 35 percent compared with 2004. The increase reflected improved results from power, gas infrastructure and oil trading activities.

Power activities generated operating income of NOK 387 million in the quarter, an increase of NOK 142 million, compared with the same period in 2004. Power production in the fourth quarter was 2.8 TWh, 27 percent higher than the same period in 2004. Hydro's reservoir levels at the end of the fourth quarter were slightly above normal level and nearly at the same level as at the end of 2004.

Gas activities operating income amounted to NOK 1,087 million for the quarter, NOK 201 million higher than in the fourth quarter of 2004. Gas activities consist of gas transportation and gas trading activities. Operating income for gas trading is significantly more volatile than operating income from gas transportation as a result of marked-to-market valuations of certain gas contracts included in the total portfolio. Contracts for delivery on the highly liquid UK gas market are accounted for as derivatives and therefore reflected at market values in the balance sheet while many contracts for delivery on the less liquid continental market are not. Operating income for gas transportation amounted to NOK 538 million for the fourth quarter of 2005, an increase of 31 percent compared with the third quarter of 2005 and an increase of 21 percent compared with the fourth quarter of 2004. The increase reflected higher transportation volumes. In the fourth quarter of 2005, operating income for gas trading was NOK 549 million compared with an operating loss of NOK 355 million in the third quarter of 2005, and an operating income of NOK 440 million in the fourth quarter of 2004. For 2005, operating income for gas trading amounted to NOK 392 million, compared with NOK 337 million for 2004. Operating income for the fourth quarter of 2005 includes unrealized gains on gas derivatives of approximately NOK 383 million and unrealized losses of NOK 39 million for the year as a whole. Gas contracts that are not marked-to-market declined in value both during the fourth quarter and during the whole of 2005. Oil trading generated operating income of NOK 51 million in the fourth quarter of 2005, an increase of NOK 38 million compared with the fourth quarter of 2004. The strong result was mainly due to favorable positioning in Natural Gas Liquids (NGL) trading during the quarter.

Oil marketing incurred an operating loss of NOK 50 million in the fourth quarter, which is NOK 55 million lower than in the fourth quarter of 2004. The negative result is mainly due to intense price competition among gasoline filling stations.

Adjusted EBITDA

Energy and Oil Marketing adjusted EBITDA in the fourth quarter was NOK 1,645 million, an increase of 24 percent compared with the same period last year. In the fourth quarter of 2003, Hydro sold its interest in the Scanraff refinery. The sale agreement included the possibility of a price adjustment depending on the development in refinery margins in 2004 and 2005. High refinery margins during 2005 have resulted in an additional gain of NOK 65 million being recognized in the fourth quarter of 2005. Energy and Oil Marketing adjusted EBITDA for 2005 was NOK 4,456 million compared to NOK 3,478 million for 2004.

Eliminations Oil & Energy

As part of its downstream activities, Hydro Energy enters into purchase contracts for natural gas with Exploration and Production for resale to external customers. Hydro Energy recognizes both the internal purchase and the external sales contracts at market value. As a result, Hydro Energy recognizes unrealized gains and losses on the internal contracts as a result of fluctuations in the forward price of gas. Exploration and Production regards the supply contracts to Hydro Energy as normal sales agreements and does not recognize unrealized gains and losses on the contracts. Elimination of the internal sales and purchase contracts between Hydro Energy and Exploration and Production resulted in a negative effect on the operating income for Oil and Energy of NOK 558 million in the fourth quarter of 2005 and a negative effect of NOK 739 million for the year as a result of increasing forward prices.

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Hydro Aluminium

Operating income (loss)

NOK million	Fourth quarter		Year	
	2005	2004	2005	2004
		(1		
Metals	1,132	,949)	3,898	860
Rolled Products	35	33	754	626
Extrusion and Automotive	(1,181)	(123)	(1,100)	248
Other and eliminations ¹⁾	(994)	88	(1,041)	72
Total	(1,009)	(1,952)	2,511	1,805

Adjusted EBITDA

NOK million	Fourth quarter		Year	
	2005	2004	2005	2004
Metals	1,516	903	6,025	5,372
Rolled Products	363	217	1,565	1,361
Extrusion and Automotive	323	308	1,495	1,850
Other and eliminations ¹⁾	(994)	88	(1,041)	72
Total	1,207	1,516	8,044	8,655

	Fourth quarter		Year	
	2005	2004	2005	2004
Aluminium price LME (USD/tonne)	1,851	1,678	1,812	1,629
USD/NOK, realized ²⁾	6.69	6.66	6.57	6.98
Primary production (Kmt) ³⁾	464	446	1,826	1,720

1) Includes unrealized gains and losses on LME-contracts. The effects of these contracts are included in the results for the sub-segments when realized.

2) Difference between realized exchange rate and spot rate at the date of transaction is reported as currency gain/loss (excluding hedge contracts) and not included in adjusted EBITDA.

3) Volumes includes production in the Variable Interest Entity Slovalco.

The Aluminium business area consists of the sub-segments Metals (Primary Metals and Metal Products), Rolled Products and Extrusion and Automotive. Beginning in the first quarter of 2005, Hydro's magnesium operations were transferred from Metals to Extrusion and Automotive because the automotive industry is the dominant customer segment for this business. From 1 July 2005, remelt operations in North America have been transferred from Extrusion and Automotive and included in Metals, in order to combine the results from these activities with the Company's worldwide primary and remelt metal results. Prior period amounts are reclassified accordingly.

Operating income

Aluminium incurred an operating loss in the fourth quarter of 2005 amounting to NOK 1,009 million, compared with an operating loss of NOK 1,952 million in the fourth quarter of 2004. The fourth quarter operating loss was heavily influenced by impairment losses of NOK 1,084 million relating to magnesium operations reflecting adverse trading conditions resulting from low priced exports from China and a write-down of NOK 154 million for Hydro's Inasa rolled products plant in Spain. The fourth quarter of 2005 also included unrealized losses of NOK 997 million on LME contracts. The operating loss for the fourth quarter of 2004 included impairment losses of NOK 2,042 million relating to Hydro's German primary aluminium plants in addition to manning reduction costs of approximately NOK 500 million. Unrealized gains on LME contracts amounted to NOK 93 million in the fourth quarter of 2004.

Operating income for 2005 was NOK 2,511 million, compared with NOK 1,805 million in 2004. Results were influenced by the impairment losses described above as well as unrealized losses on LME contracts amounting to NOK 1,021 million for 2005, compared with unrealized gains of NOK 175 million in 2004. Increased primary aluminium production, together with higher realized aluminium prices, positively influenced operating income in 2005, compared with 2004. Hydro's downstream operations in Europe faced continued challenging market conditions with continued pressure on margins in addition to declining volumes for Hydro's extrusion business.

The unrealized losses on open LME derivative contracts reflected marked-to-market effects resulting from increased aluminium market prices. In the fourth quarter of 2005, the LME three-month price increased from US dollar 1,850 per mt at the beginning of October, to a closing price of US dollar 2,277 at the end of December. In addition to the significant LME price rise, Hydro has increased the volumes sold forward by 90,000 mt in the quarter due to increased reluctance by customers to price metal for future delivery.

Market developments

The average market price for aluminium (LME three month average) increased by about 14 percent to US dollar 2,069 per mt in the fourth quarter of 2005, compared with the same quarter of 2004. The corresponding LME price measured in Norwegian kroner increased by about 19 percent. Compared with 2004, the 2005 average market price increased about 10 percent measured in US dollars, and about 6 percent measured in Norwegian kroner. The price developments reflected increases in short-term alumina prices as well as the significant rise in power costs for major producing regions such as Europe and the United States over the last year. In addition, financial investors have been very active in LME trading which has had a strong influence on price developments.

Including the effect of hedges, Hydro's realized aluminium price strengthened to US dollar 1,851 per tonne in the fourth quarter of 2005, compared with US dollar 1,678 per tonne in the fourth quarter of 2004, corresponding to an increase of 10 percent. Measured in Norwegian kroner, the realized aluminium price increased by approximately 11 percent.

Global consumption and production of primary metal increased by around 6 percent in the fourth quarter of 2005, compared with the fourth quarter of 2004. China's consumption as well as production of primary aluminium increased by around 17 percent in 2005, compared with 2004. Chinese exports of primary aluminium in 2005 amounted to about 700,000 mt. However, China imported roughly 400,000 mt on a net basis, mainly due to large imports of scrap. 2005 was a difficult year for European producers of rolled products, particularly for standard products. Weak economic developments, together with customer inventory reductions and intense competition, put severe pressure on margins of standard rolled products. Market demand from the special product segments such as aircraft, lithographic sheet and can stock was stronger, while the automotive and foil market segments were flat. Total shipments for general extrusions in Europe are expected to have declined about 2.5 percent in 2005, compared with 2004, while shipments in the US market continued to grow at a rate of 3 – 3.5 percent. European extrusion margins were under pressure throughout the year. Preliminary figures for global light vehicle sales indicate an increase of 2.7 percent from 2004 to 2005. North American and European light vehicle sales increased 0.5 – 1 percent during 2005, but both US and European sales fell during the fourth quarter of 2005, all compared with the corresponding periods in 2004.

Adjusted EBITDA

Adjusted EBITDA for the fourth quarter of 2005 was NOK 1,207 million, compared with NOK 1,516 million in the fourth quarter of 2004. Results for non-consolidated investees reflected a loss of NOK 87 million in the fourth quarter of 2005, compared with income of NOK 54 million in the fourth quarter of 2004 which included a charge of NOK 268 million relating to the write-down of the Hamburger Aluminium Werk (HAW) smelter in Germany. The decline in results from non-consolidated investees reflected reduced earnings from Alunorte in Brazil due to unrealized currency losses on US dollar loans, increased production costs and losses on operational hedge programs due to the increased aluminium market prices. Adjusted EBITDA for 2005 was NOK 8,044 million, compared with NOK 8,655 million for 2004.

Improvement programs and plant closures

Following the write-down of German primary metal plants in 2004, Hydro has not been able to renew or replace the electricity contracts at sustainable terms and conditions and has therefore decided to close the Stade smelter and, together with its co-owners, the Hamburger Aluminium Werk (HAW) smelter. HAW production was shut-down at the end of 2005, while production at the Stade smelter is expected to be phased out by the end of 2006. To partly compensate for the increased power costs in Germany, a major improvement program has been established at the Neuss smelter, which targets annual cost savings of approximately Euro 20 – 30 million. Hydro will close the Söderberg production lines in Norway at its Høyanger and Årdal smelters. The Söderberg line in Høyanger is planned to be closed during the first quarter of 2006. The timing of closing the line at the Årdal smelter will be decided by the

end of the first quarter of 2006.

Hydro's total 2005 production from the above plants and production lines, excluding the Neuss smelter, amounted to 173,000 mt.

Factors affecting developments in the coming quarters

LME prices have continued to rise during the beginning of 2006. Trading by financial investors has resulted in long aluminium positions, adding a significant risk of increased volatility to the LME price. The investor base, which was primarily comprised of hedge funds, has expanded to include commodity index funds and longer-term investors such as pension funds.

Economic indicators signal continued global growth in 2006. Economic development in the United States is expected to slow slightly from the 2005 level, while conditions in Europe are expected to improve moderately. Development in the major Asian economies, including China, is expected to continue in line with 2005 growth rates.

Hydro expects Western World consumption of primary aluminium

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to increase roughly 3 percent in 2006 and approximately 5.5 percent globally. Production is expected to increase approximately 2 percent in the Western World and about 4 percent on a global basis. Actual global developments are highly dependent upon developments in China. High energy prices together with high alumina prices have caused China to curb exports of primary metal. At the same time China has increased its import of scrap for recycling and is apparently focusing more on downstream manufacturing activities than exporting primary metal. Capacity closures that have been announced in Europe and in the United States may be delayed due to the continued high aluminium prices.

Shipments to the European rolled products and extrusion markets are expected to improve moderately during 2006. However, pressure on margins will likely continue. The global light vehicle automotive market is expected to grow moderately during 2006. Developments in the United States are expected to be flat, while the European market is expected to improve moderately.

Total costs related to the closure of the Norwegian and the German metal plants are, as previously announced, expected to reach NOK 1 billion. Operating income for 2005 included costs related to closure of the above plants amounting to approximately NOK 200 million. The remaining costs will be incurred mainly in 2006 and 2007.

The significant rise in power costs is expected to result in a cost increase for Hydro's aluminium business estimated at NOK 1.4 billion for 2006, compared with the total cost of power in 2005. Approximately NOK 1.1 billion of the increase relates to upstream activities, with a large part relating to operations in Germany.

At the end of the fourth quarter 2005, Hydro established a new LME hedging program in order to secure acceptable operating margins for a portion of its primary metal production for 2006, and to mitigate the effects of higher energy cost, especially in Germany. Under the program, 130,000 mt have been sold forward on the LME at price levels of approximately USD 2,150 per mt. The contracts are evenly spread over the last three quarters of 2006. In addition, energy supplies for the Rheinwerk smelter in Neuss for 2006 were secured at market terms.

Hydro expects to fund a deficit in a UK defined benefit pension plan of GBP 33 million (approximately NOK 380 million) in the first quarter of 2006. The majority of the amount will be charged to the operating income of Extrusion and Automotive and reversed as part of Corporate and eliminations in Hydro's consolidated accounts.

Metals

Operating income

Metals' operating income for the fourth quarter of 2005 amounted to NOK 1,132 million, compared with an operating loss of NOK 1,949 million for the fourth quarter of 2004. Operating income for 2005 amounted to NOK 3,898 million compared with NOK 860 million in 2004. Operating income was positively impacted by higher realized aluminium prices together with increased production, partly offset by higher raw material and energy costs. Operating income for the fourth quarter of 2004 and the year as a whole included the impairment losses and charges of approximately NOK 2.6 billion as described above.

Hydro's primary aluminium production increased to 464,000 mt in th